

INSTITUTE OF CURRENT WORLD AFFAIRS

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Conversations with Economists

Mr. Richard H. Nolte
Institute of Current World Affairs
535 Fifth Avenue
New York, New York

Dear Mr. Nolte:

Though I want to tell you this month about my talks with economists in Thailand, a good introduction may in fact be my impressions on my recent trip to Indonesia. Getting out of Thailand helped me see some things more clearly than when I was in Thailand.

The purpose of my visit was to attend the Sixth Congress of the International Association of Historians of Asia. Many of the papers were excellent, and it turned out also, as I had hoped, to be a good opportunity to meet kindred spirits in the region -- not just historians, but also political scientists, sociologists, economists, and linguists. I was impressed by the extent to which the Indonesian revolution hovered over the week's events. We were welcomed by the vice president of Indonesia, who is also the Sultan of Jogjakarta, the city where resistance to the Dutch originated. The conference itself was held in Jogjakarta, or Jogja as it is usually called; the city has much the same meaning for Indonesians as Lexington and Concord do for Americans. Dr. Hatta attended some of our meetings; he was one of the founders of the independence movement back in the 20's, a close associate of Sukarno, and vice president up until about 1962. A considerable number of Dutchmen attended, and for them it was impossible not to have some emotional response to their visit to Indonesia. There was even one scholar who had given up his Dutch nationality in the 50's and who now teaches in Jakarta; he presented a brilliant paper on the role even now of the Hindu epics in the everyday political life of Indonesia.

At the same time, a number of people from the U.S. apparently couldn't attend, because of some of the things they had written about the events of 1965. Along the same line, we were treated at the opening ceremony to a lecture by a government official warning us, in the words of the newspaper report, "to respect local customs and traditions and pay attention to priorities in the development of the nation." (My recollection is that the message was a bit less euphemistic than that.) This attitude seems to me to reflect a feeling of insecurity by the regime vis-a-vis knowledgeable foreigners more than a desire to use them in national development or for any other purpose. Such a feeling of insecurity seemed reflected too in the relationship of the government to its own people. Conversations with both Indonesians and foreigners suggested that many citizens genuinely fear their government -- that it has the potential for doing something nasty if it decides to. We had some walking evidence of this through the attendance of Soedjatmoko, an internationally respected intellectual and former Ambassador to the United States. Many people report that he cannot leave the country and that he is under close and continuous scrutiny by the police for -- well, it's not sure what. All this is in contrast to the generally relaxed attitude toward both foreigners and domestic political figures in Thailand, an attitude going back even to the "bad old days" of the mili-

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tary dictatorship.

The Indonesians I met, from Java, Ambon, Sumatra, and Bali, were delightful people, amazingly so considering the difficult situation of their country, especially the islands of Java and Bali. Both are packed with people -- you just can't go anywhere to be alone. That these two islands are crowded comes as no news to anyone -- but it is still an experience to be felt, especially for a visitor from Thailand. Both islands are also frightfully expensive, and not just for visitors who stay in Western-style hotels. I did a little checking and found that the rice price is higher in Indonesia than in Thailand, again hardly surprising since Indonesia imports from Bangkok, and the Thai domestic price is artificially depressed by an export tax. From what I can determine the urban wage is on the average lower in Java than in Thailand, too.

It might be a good thing for more Thai "opinion leaders" to visit Indonesia: they would realize how fortunate Thailand is by comparison -- for now -- both in the openness which exists in Thailand in attitudes and in the demographic situation. I suspect the two are in fact related. The point is, Thailand has time to avoid the fate of the Javanese and the Balinese. Will it be used wisely? It is clear from reading the newspapers and talking to friends that Bangkok Thai are concerned about many issues, and rightly so. But we are entitled to ask: do these concerns reflect a proper appreciation of the long-range seriousness of the issues that trouble them now? Perhaps we must wait until after a new government is installed early next year to know what the real priorities will be. At that time we will certainly be right to pose the question again, and perhaps to press some conclusions of our own on the people who have not yet visited Java.

Let me finish with a parable. My hobby is electronics; wherever I go, I'm always looking at the technical characteristics of power grids, telephone systems, radio links. I'm also quite a walker. While I was waiting for a visa to come through I spent a Saturday and Sunday walking over a good bit of Jakarta looking mostly at other things, but at these too. I passed through Merdeka Square, an enormous array of parks and malls, circles and squares in the center of the city, commemorating the independence of Indonesia. Parts were actually laid out by the Dutch, with, I noticed, an underground electrical distribution system for the decorative street lights. The cables are heavy gauge copper, insulated with jute and gutta percha, and wrapped with steel tapes for physical protection. They come up out of the ground into heavy cast-iron terminal boxes which contain the fuses and make the connections to the lights atop the poles. The system was obviously designed to last a century against tropical storms, rodents, and careless people.

However someone has removed all the old cast-iron light fixtures, inserted a short section of pipe on top of the poles, and screwed on modern aluminum Japanese fixtures. The result is rather incongruous. At the same time this modernizer has also chopped off all the old cast-iron terminals intended to protect the system against the rains and against curious children poking their hands where they shouldn't. Now the cables come out of the ground and are spliced, haphazardly, to a new set of wires going up the poles. Most of the splices aren't even covered with friction tape: the bare wires lie exposed on the ground all over Merdeka Square. Of course, all the fuses have been jumped too.

From a distance, then, the square is both modern and brightly lit. A closer look reveals, though, that it is unreliable and potentially lethal. Could this tell us something about modernization in Indonesia? I really don't know, but I plan to go back and find out.

With this picture in mind of what the future can look like, let me go on to tell you what I discovered from talking to economists in Thailand. I have my own ideas as to what's going on here and where we are heading, but I don't count for much here. I thought it would be useful instead to talk to some of the people at the center of the action, to find out what their perceptions are of the problems Thailand faces, and where they think the country is heading.

I developed a little checklist focusing on the means and ends of development in Thailand, but the interviews were quite freely structured around the interests of each interviewee. In general I asked such questions as: What do you and your colleagues see as the "hot issues" in Thai development today? What are the goals? What are the means? What are the constraints? What kind of place is Thailand going to be a few decades from now?

This was not a "multiple choice - forced response" format. It is reasonable to ask, then, what I hoped to achieve with this approach, loose and associative as it was. Two things, both quite simple. First, I wanted to learn something more about how the economic system is working here, and in whose interests. Second, I wanted to learn of perceptions at the center. I found in previous interviews in this part of the world that 90% of a problem's solution lies in the constraints that prevent important people from seeing ways out (or worse, from even seeing the problem at all). The people I spoke to are all important figures; their views count, and they talk to the really top people themselves, or they tell those next to the top what to tell their bosses to think, read or sign. Thus I believe it's fair to say that if they declared something was being considered, it probably was; conversely, if no one mentioned certain things, these probably just aren't on anyone's desk.

Who were these people? Several asked me not to use their names, at least for certain parts of their interviews. To simplify matters, I have decided not to use any names at all. The people altogether were six, in the following positions:

- * an economist with the World Bank regional office;
- * an economist with the United States Agency for International Development;
- * an agricultural economist with the UN Development Program;
- * a member of a Thai university economics faculty, also economic advisor to the prime minister and member of the National Assembly;
- * an economist at the National Economic and Social Development Board;
- * an economist employed by one of the country's major banks, also a member of the National Assembly.

Of the six, two were Thai, two were American, and two were Europeans of undisclosed nationality. I had hoped to interview more people, but between transfers, broken phones, and busy schedules, this is what I got. Not a bad collection, though, and the results were rather interesting.

My first question focused on what people perceive as the important issues in development, what deserves attention, what is on the agenda for action. I made it clear that I was asking for the views not just of the person being interviewed but also of his circle of professional colleagues. (I usually phrased the question as, "What do you and your colleagues talk of as the important issues?" etc.) I also asked them to rank their perceptions of importance of issues as action items. Let me list their replies briefly, and then amplify a few points. I realize that such a

schematic presentation can't do justice to the insights of my interviewees, but I'm not shooting for details (at least not now). Instead I want to present the broad picture.

<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
1.inflation	1.# increase agric.output & ec. devel.	1.rural soc. 1. strikes, socl. disruption, crime	1.inflation 1.* ec. stability		
2.unemploy't	2.pop.control	2.law&order, 2.income dis-2.land reform	2.modernize nat'l infrastructure (both physical and instit.)		
3.income dis- tribution		3.implant democracy	3.develop democracy	3.unemploy't	3.modernize agriculture
4.modernize agriculture		4.reform bureaucracy		4.housing	4.pop. control
5.educational system				5.reform local gov't	5.regional econ. imbalance 6.income dis- tribution

B mentions that until two years or so ago, promotion of industry for export would have been first

* F mentions that the primary goal (presumably some kind of constraint on the rest) is to increase the income of ranking members of the government

Let me amplify this chart by recounting a few remarks of the interviewees on specific points. While economist A listed inflation first, he emphasized that this was a very city-oriented concern. The inflation in Thailand actually began some time before the oil crisis, in response to rising world grain prices. Since rising rice prices help the farmers, this concern is thus not to aid the population in general (since the farmers are a majority, they benefit by the inflation) but to keep the lid on in the cities. He also mentions that while the professed concern for income distribution has become more acute in the last four or five years, it is still not serious. The evidence is clear that past policies have protected the urban population, especially Bangkokians. There are no specific goals in the new economic plan to alter income distribution, other than to "shrink the gap." Both C and D emphasize the vagueness of government thinking about national goals, while D goes on to echo A's point about income distribution: lots of officials talk about "social justice" but no one he has met in his circles is willing to push the specific measures which would help to bring this goal about, e.g. reform of the tax system (studies show the Thai tax system is quite regressive), adoption of an inheritance tax and capital gains tax on land transactions, and a serious shift in budgetary allocations. E suggests that the only solution to the unemployment problem is a new strategy for rural development, since his studies show that those coming on the labor market in the next decade will be largely unable to find work in the industrial sector. As for inflation, he says a lot of people talk about it, but the issue is never posed in the brutal but realistic terms of: who will pay? City dweller or country dweller, rich, middle class or poor? His fifth priority, reform of local government, means for him province, or "possibly lower" (a point we will return to later).

Economist F, I should note, never even would have included income distribution on his list of "concerns" if I had not asked him where he thought this fit in government priorities. He suggests that among major bureaucratic participants, the "liber-

als" (which means favoring "social and economic development" as described here over economic stability) lie in the National Economic and Social Development Board, the Department of Accelerated Rural Development, the Budget Bureau, and the Fiscal Policy Office of the Finance Ministry. (Though he himself did not say so, others identify the "conservatives" as being in the Bank of Thailand and sprinkled elsewhere throughout the top levels of the government, e.g. the Cabinet.) F also made a distinction between the "older generation," generally taking a conservative line, and a "younger generation" among bureaucrats, who take income distribution and rural development seriously. In his view the World Bank is closer to the "younger generation" in its outlook, while the IMF tends to favor the outlook of the conservatives. He made a point to add that the US Agency for International Development has been concerned almost exclusively with counterinsurgency, so the large amounts of money it has put in have gone largely for expanding and improving the police, counterinsurgency forces, and the road network.

What can we say of this? Is it just a hodge-podge? Well, it is and it isn't. It's partly a jumble, and that is significant itself, but there is some order too. The responses are a mixture of conservative and liberal goals, with a tendency toward the liberal side (as that term is usually understood -- whether it even-tuates in anything is another question). On the whole, the responses also strike me as quite sophisticated. No one, for example, mentions "increasing GNP," or "industrialization," at least in those terms, and this is probably an important change from what the answers would have been ten or even five years ago.

Four respondents mentioned the significance of short-term problems or crises: inflation, crime in the streets, the recent unprecedented wave of strikes. In their conversations with me they all emphasized that this preoccupation with short-term goals is hampering the effort to give long-term direction to Thai development. Two specifically mentioned the general vagueness of government goals and sense of priorities. This is significant in connection with another issue I will come to: what are the causal linkages; the same vagueness, the same sense of "what do we do?" is evident there. (If you are beginning to feel uncomfortable about now, you're getting the message.) Interestingly, several respondents also suggested that government concerns were beginning to change even before the uprising of last October, which coincides with the view I have expressed previously, that **the** **leaders** of the old regime were responsible for important institutional blockages, and that these were involved somehow in the pressures that brought on the collapse of the military dictatorship. Two people I spoke with also focused on the "older generation -- younger generation" gap in perceptions; others probably would have mentioned this if I had raised the issue. The older generation is still clearly in control, but the views of the younger group have to be taken into account, at least at the rhetorical level.

Perhaps it is a sign of increasing realism, or perhaps just of faddishness in economics, that five of the six mentioned doing something for agriculture somewhere near the top of their lists. This is certainly a shift from the conventional wisdom of a previous generation, that development meant leaving agriculture to its own devices, all the while squeezing what resources one could out of the agricultural sector in order to push industrialization. I leave the question of what the problems are and what should be done to a later section; in a forthcoming letter I will discuss what some of the alternatives are, in terms of the kind of country the Thai want to have twenty or thirty years from now.

It is interesting also that half of those I interviewed mentioned a concern for income distribution, and that in each case this concern was perceived to be somewhere from the middle to the bottom of the list of priorities. From here on the patterns become less visible. Only two mentioned unemployment, and they disagreed: one asserted that there would be an increasing problem of unemployment as time goes on, i.e. a long-term trend of inadequate opportunities in agriculture; the other said this was emphatically not the case, that there is no foreseeable long-term unemployment problem in Thailand, and that this is significant only in the short run, in the export sectors, like textiles, which have been seriously hit by a drop in world demand. Only two mentioned population control, and only two mentioned reform of the bureaucracy. Curiously, governmental reform was at the bottom of the list for these two, and others didn't even mention it, but bureaucratic ineffectiveness is near the top of almost everyone's list of constraints on development -- as is education or human resources, which was mentioned by only one person as an area of concern.

Generally speaking, then, we can say that a healthy concern for agriculture shows through, and the fact that government economists are thinking about agriculture, even if they can't agree on what to do about it, is a hopeful sign. The only other thing that even half agreed on (beside the unhappy impact of immediate crises on government planning) was income distribution, but there seemed to be a consensus that this is not very important and not taken seriously by the people at the top.

Otherwise I confess I can find no indication of priorities, or even agreement on what the problems are facing Thailand. The two who mentioned employment can't even agree on what the facts are. I view this as a significant phenomenon but leave it to the reader to draw his own conclusions. Some would say that these people ought to get together, set some clear priorities, and take determined action, but this makes sense only if you have faith in the proposition that economic planners know what they are doing. Whether this proposition holds in Thailand I can't say, but it seems pretty clearly disproved by the U.S. experience.

My next question focused on the constraints which each economist saw as hindering Thai development. Let me give you another brief tabular presentation:

<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
none*	1.markets notl.shortage ofno resource	1.ineffectivel.unmotivated	no resource	1.difficulty in	
	competitive capital constraint	1.ineffectivel.unmotivated	constraint	org. Thai to	
	2.human re- 2.human re- 1.ineffectivel.unmotivated	1.ineffectivel.unmotivated	constraint	cooperate with	
	sources sources bureaucracy bureaucracy	1.ineffectivel.unmotivated	constraint	each other	
	(esp. middle (esp. irrel-2.gov't helps2.unclear	1.ineffectivel.unmotivated	constraint	2.focus on Bkk	
	level) evant educ.) those who signals	1.ineffectivel.unmotivated	constraint	3.internal poli-	
	3.bureaucrat.3.farmers help them- 3.insufficient tical struggles	1.ineffectivel.unmotivated	constraint	4.difficulty	
	attitudes bear mkt riskselves and	1.ineffectivel.unmotivated	constraint	in formulating	
(* see		1.ineffectivel.unmotivated	constraint	econ. policy	
remarks		1.ineffectivel.unmotivated	constraint	5.poor function-	
below)		1.ineffectivel.unmotivated	constraint	ing of local	
		1.ineffectivel.unmotivated	constraint	admin.	
		1.ineffectivel.unmotivated	constraint	6.poor coordination	
		1.ineffectivel.unmotivated	constraint	at top	

Two things strike me about these responses. First, all except C appear to agree that physical resources are not a constraint. Thus three of six specifically mention that there are no capital constraints, while two more mention none in their lists. By way of detail, A points out that in the 1965-1969 period, when the economy was quite buoyant, there were very high savings rates. We conclude that there is no shortage of domestic capital. At the same time, there is plenty of foreign capital available, both in reserves and in the form of foreign investors knocking at the door. To go a step further, we might say that there is as much capital available as there are profitable investments. I might add here myself that Thailand's foreign exchange reserves are at an all-time high of \$1.5 billion (as of June, the latest data I have), up 50% since last October. That is to say, Thailand's foreign reserves have improved since the oil crisis, due to large price increases in its exportable primary products.

The second thing which impresses me is the degree of agreement on the importance of what I would call "institutional" constraints. Thus B speaks of shortage of human resources, especially at the middle level of the government bureaucracy, and of bureaucratic attitudes (arrogance vis-a-vis citizens, status consciousness) which make it hard for officials to deal productively with the people in development projects. C notes the shortage of human resources (he also attributes this to educational deficiencies). D mentions the ineffectiveness of the bureaucracy, E its poor motivation, and F the poor functioning of the local administration.

Beyond this there seems to be some, but lesser, degree of agreement on what I would call "political" constraints: the inability of bureaucracies to unite on policies, especially what we might call "wise" policies, by some hypothetical objective criterion. As examples of this, D observes that the bureaucrats tend to choose easy projects (such as major infrastructure programs like dams, roads, power systems) because these are relatively simple to execute; this is done despite the fact that a less expensive effort requiring more detailed supervision might (he suggests) bring a greater return to the population. E observes that the top does not send clear signals down through all the bureaucratic chains of command; presumably the left hand does not know what the right is up to. F is most emphatic on this subject, suggesting the importance of internal political struggles, difficulties in agreeing on a consistent economic policy, and poor coordination at the top (presumably the cabinet level). As an example of the second point, he points to the unhappy position of the National Economic and Social Development Board, charged with analyzing project proposals from the various ministries and with devising a coherent development plan. The ministries however resent this outside scrutiny of their proposals (I suspect, often according to analytic methods which they hardly comprehend), and hence there is much friction.

I confess that I am unimpressed by this emphasis on "political" constraints, though. There is no evidence that the problem is any worse in Thailand than elsewhere; coordinating quasi-independent bureaucracies is notoriously difficult, and in fact is the subject of a large literature. (I urge my readers to look at an article by Charles Lindblom called "The Science of Muddling Through," Public Administration Review, Spring 1959; it's a classic.)

Let me add one reservation, concerning economist B's assertion that markets (for credit and for the farmer's produce) are not competitive. The stereotype of the pitiless loanshark and the cruel middleman is a popular one, but the evidence I am familiar with indicates that while these two markets are unhappy ones for the

farmer, they are perfectly competitive. Interest rates are high for the farmer because of risk of default (a consequence of his poor technology) and high costs of administration. Middlemen's spreads are thin; this was demonstrated a few years back by a large American grain trading firm which, believing it could "clean up" by competing with the Chinese rice traders, ~~went~~ bankrupt with a loss of millions. (One qualification: money markets seem to be competitive from the banks to the farmer; it's quite clear though that there are monopoly profits accruing to the banks because of restricted entry; with one exception, though, the banks don't even loan to farmers, so this is not what is at issue.)

We are left, then, with the major conclusion that the principal constraint on Thai development is an institutional one: the poor functioning of governmental bureaucracies of all kinds, particularly at the level where they execute programs and interact with the general population. (This is the economists' conclusion, not necessarily mine.) Let me just leave this point here, and pick it up next month when we start talking about what economists are actually doing to push development.

Before closing, though, we must say a few words about the views of economist A, known about town as something of an iconoclast (but respected none the less). He says the view that programs are poorly executed is convenient but doesn't amount to much. In his view there are no constraints on Thai development, and the economy is moving along just about as fast as it can (6% a year or so). In his view, the bureaucracy is not a constraint in the long term (10 years) -- in fact there is really nothing much the government can do to help or hurt the process of development. It is a process which is carried forward by private entrepreneurs looking for profits, and they will adjust their calculations to whatever steps the government takes.

He admits three qualifications to this thesis: 1. "externalities" in the technical language; 2. income distribution (via government transfer mechanisms) and 3. the fact that the government certainly can in the short run foul things up. He cites several examples of this in recent Thai history (e.g. failure to adjust exchange rates to stop inflation; bureaucratic flip-flops in expenditure patterns having major short-run influences on aggregate demand). But in the long run the entrepreneurs take government stupidity into account too.

This is a provocative view, these days at least (actually it is the classical view), and I have not had a chance to think it through well enough to say anything intelligent in response. One thing that is immediately clear to me though is that we are suffering from the lack of any suitable measure of "constraint" with which to compare different orders of constraining factors. Thoughts from readers are welcome on this point.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Jeffrey Race', with a stylized, cursive script.

Jeffrey Race

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